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Message Text

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S E C R E T ROME 17182

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TREASURY FOR YEO

E.O. 11652: XGDS-1
TAGS: EFIN, PINT, IT
SUBJECT: REQUEST FOR ASSISTANCE TO BOLSTER ITALIAN CURRENCY RESERVES

REFS: A) ROME 16174 B) ROME 16872 C) ROME 17169, D) ROME 17183

1. ANDREOTTI ASKED ME TO COME AND SEE HIM THIS MORNING ON AN URGENT BASIS. AS I SURMISED, THE MEETING HAD TO DO WITH THE LEVEL OF ITALIAN FOREIGN EXCHANGE RESERVES AFTER HEAVILY SUPPORTING THE LIRA IN THE MARKET FOR TWO DAYS THIS WEEK. ANDREOTTI SAID THAT THE ITALIANS HAVE USED SOMETHING OVER 600 MILLION DOLLARS AND ARE LEFT WITH A BALANCE OF APPROXIMATELY 1.35 BILLION DOLLARS. OBVIOUSLY, IF THE SUPPORT REQUIREMENTS REMAIN AT THE PRESENT LEVELS, THE ITALIANS WILL RUN OUT OF LIQUID RESERVESNKIN A MA TTER OF DAYS.

2. ANDREOTTI SAID THAT THE TRADE UNIONS WOULD ACCEPT HIS AUSTERITY PACKAGE WITH SOME MINOR AMENDMENTS. IN ADDITION, THE COMMUNIST PARTY HAS BEEN REASONABLY COOPERATIVE WITH THE RESULT THAT ANDREOTTI EXPECTS BY FRIDAY TO HAVE GENERAL APPROVAL FROM THE CHAMBER FOR HIS PROGRAM PRETTY MUCH AS HE HAS PRESENTED IT. HE EXPLAINED, HOWEVER, THAT IF AT THE SAME TIME THIS POSITIVE EFFORT WAS MOVING THROUGH PARLIAMENT, ITALIAN FOREIGN EXCHANGE RESERVES WERE EXHAUSTED, HE WOULD HAVE NO ALTERNATIVE BUT TO THROW IN THE SPONGE. ANDREOTTI THEN BROUGHT UP STAMMATI'S
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TALK WITH SECRETARY SIMON IN MANILA WHO INDICATED THAT THE U.S.

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WOULD BE PREPARED TO HELP THE ITALIANS SINCE THEIR PROGRAM TO
SET THEIR HOUSE IN ORDER SEEMED TO BE SERIOUS AND MOVING IN
THE RIGHT DIRECTION.

3. AGAINST THE BACKGROUND OF OUR WILLINGNESS TO HELP AS
EXPRESSED BY THE PRESIDENT, SECRETARY SIMON AND YOURSEC,
ANDREOTTI IS CALLING ON US TO GIVE PRACTICAL SUPPORT TO THE
ITALIANS IN THEIR EFFORT. ANDREOTTI ASKED ME TO POSE THE FOLLOWING
REQUESTS TO WASHINGTON:

(1) HE ASKS THAT ALL POSSIBLE U.S. PRESSURE BE EXERTED
ON THE EC (GERMANY AND FRANCE) TO HELP THE ITALIANS OVERCOME THEIR
PRESENT DIFFICULTY. CONVERSATIONS WITHIN THE EC ARE UNDERWAY
BUT ANDREOTTI SEEMS TO WANT AN ADDITIONAL PUSH. ANDREOTTI SAID
THAT HE HAD BEEN PREPARED TO GO TO GERMANY TO EXPLAIN THE
SITUATION TO SCHMIDT BUT SCHMIDT WAS PRESENTLY ON VACATION.

(2) HE ASKED THAT THE U.S. ALSO EXERT PRESSURE ON THE
IMF TO EXPEDITE THE NEGOTIATIONS ON THE ITALIAN REQUEST FOR
A LOAN. HE POINTED OUT THAT THE IMF PROCEDURES COULD TAKE
WEEKS OR EVEN MONTHS AND THAT THE ITALIANS SIMPLY DO NOT HAVE
TIME.

(3) HE ASKED THAT THE U.S. TREASURY, USING THE
EXCHANGE STABILIZATION FUND, PROVIDE A 500 MILLION DOLLAR CREDIT
TO TIE ITALY OVER THIS PERIOD. I REMARKED THAT THE TREASURY
RARELY USES THIS SOURCE WITH MAJOR INDUSTRIAL COUNTRIES AND
THAT EVEN IF SUCH MONEY WOULD BE AVAILABLE, IT WOULD BE FOR
VERY SHORT PERIODS, PROBABLY NOT EXCEEDING 90 DAYS. ANDREOTTI
SAID THAT 90 DAYS WOULD BE TIME ENOUGH TO PERMIT HIS AUSTERITY
PROGRAM TO SHOW RESULTS AND THAT THE MONEY WOULD BE PSYCHOLOGICALLY
USEFUL IF IT COULD BE PROVIDED QUICKLY. IN THIS CONNECTION HE
COMMENTED THAT SINCE THE TREASURY IS PART OF THE EXECUTIVE
BRANCH, IT COULD ACT MORE QUICKLY THAN THE FEDERAL RESERVE.

(4) ANDREOTTI SAID THAT HE WAS PREPARED TO SEND
SOMEONE SUCH AS OSSOLA TO WASHINGTON, OR EVEN GO HIMSELF.
I CAUTIONED HIM AGAINST SUCH A STEP AT THIS TIME ON THE GROUNDS
THAT THE ELECTORAL CAMPAIGN PREOCCUPIED PEOPLE IN WASHINGTON
AND THE FACHNTHAT SECRETARY SIMON HAD JUST SEEN STAMMATI IN
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MANILA SO OUR TREASURY PEOPLE CERTAINLY KNEW THE SITUATION
INTIMATELY AND PRESUMABLY DID NOT REQUIRE ADDITIONAL PERSONAL
CONTACT AT THIS TIME.

(5) FROM THE POINT OF VIEW OF THE ITALIAN POLITICAL
SCENE, I BELIEVE WE SHOULD ASSIST ANDREOTTI BY RESPONDING
POSITIVELY TO THIS REQUEST. ANDREOTTI HAS A VERY HARD ROW TO
HOE UNDER THE BEST OF CIRCUMSTANCES AND IF THE LIRA SHOULD

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GO TO 1,000 TO THE DOLLAR AFTER HAVING EXHAUSTED THE ITALIAN RESERVES, THE POLITICAL FALL-OUT COULD BE SERIOUS. NEITHER WE NOR THEY CAN PREDICT THE OUTCOME BUT WE CAN ASSUME WITH SOME CERTAINTY THAT IT WOULD FURTHER WEAKEN THE DEMOCRATIC FORCES. I REALIZE THAT WE WOULD PREFER A PRIOR AGREEMENT WITH THE IMF BEFORE WE CONTRIBUTE MORE. HOWEVER, WE KNOW AND APPROVE THE ITALIAN PROGRAM AND I AM CONVINCED THE SITUATION WARRANTS OUR PROVIDING A TEMLRARY BRIDGE TO OVERCOME THIS SITUATION.

(6) REFTELS GIVE MOST RECENT GENERAL DKXESCRIPTIONS AND ASSESSMENTS OF STABILIZATION PROGRAM. REF D) CONTAINS PRO MEMORIA GIVEN ME BY ANDREOTTI. VOLPE

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